

Low-Income Developing Countries and Trade Liberalization: An Overview of the Issues

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Abstract: The next round of trade negotiations will continue agricultural trade negotiations in the areas of market access, domestic support, and export competition. These issues have major implications for the food security of low-income food-importing countries. Other issues with direct or indirect impacts on the food security of developing countries that may be examined or renegotiated in the next round (or in concurrent international negotiations) include food aid, special preference arrangements, technical assistance, state trading enterprises, biotechnology, and production process issues.

Introduction

Food insecurity of the low-income countries is deeply rooted in many factors that are not all affected by global trade policies. However, with the increasing role food imports play in low income countries, global agricultural market conditions could significantly affect the food security of these countries. Decisions in the new round of trade negotiations can affect food security of the low-income countries through: 1) world price levels and variability; 2) the ability of food insecure countries to increase export earnings, which often come from agricultural products; and 3) availability of food aid for emergency assistance as well as development.

The Uruguay Round of international trade negotiations, which took place over 1986-94, gave heightened attention to agriculture. The resulting Uruguay Round Agreement on Agriculture (URAA), which was signed by a majority of countries, will condition future policies of countries both at the international and national level. Therefore, it is important to understand the main features of the agreement and the likely issues that could be negotiated in an upcoming round.

In this overview, we highlight the major issues that are likely to emerge in the next trade round, especially those that are important to developing countries. Issues that are particularly important for different geographic regions are highlighted in the following articles.

Issues Relevant to Developing Countries in the Next Round

The most important components of the URAA are the “three pillars”—market access, domestic support, and export competition. Highlights of the changes agreed to in the last

round are presented in table A-1. In the area of market access, an element of the agreement was the conversion of nontariff barriers into bound tariff levels and the reduction of existing tariffs. This has set the stage for deeper cuts in future rounds. In the area of domestic support, countries determined which policies were permitted and which were subject to discipline. Domestic support policies were placed into different categories (“amber box,” “green box”, and “blue box”), depending on how distorting the policies are to world markets. Trade distorting domestic support levels are scheduled for reductions based on an “Aggregate Measurement of Support” (AMS), which is an index that measures the monetary value of total government support to a sector. In the area of export competition, countries agreed to reduce their existing export subsidy programs and to not introduce new subsidy programs.²

Other agreements that are likely to affect agriculture but are not explicitly included in the URAA are the Sanitary and Phytosanitary (SPS) Agreement and the establishment of the dispute resolution mechanism. The SPS Agreement recognizes each country’s sovereignty in establishing levels of SPS protection, but requires that such measures be science-based and non-discriminatory. The dispute resolution mechanism established a panel system to arbitrate trade disagreements and enforce decisions regarding all Uruguay Round agreements, including those for agriculture.

Not all of the above issues are equally important for all countries. For example, the farm policies and programs of the exporting countries have direct implications for food security of low-income countries. If domestic price supports are reduced, the expected effect would be a decline in the production of staple foods and an increase in world prices (other market conditions being constant). Such a policy would have different implications for the food security of

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² For more information on these and other issues, see USDA (1998).

Table A-1--Highlights of Commitments from the Uruguay Round Agreement on Agriculture (URAA)

Category/item	Developed countries (DCs)	Less developed countries (LDCs)	Least developed countries
Market access:			
Tariffication:	Convert all nontariff barriers to tariffs	Same as DCs	Same as DCs
	Reduce tariffs by 36 percent in 6 years; min. 15 per line	Reduce tariffs by 24 percent in 10 years; min. 10 per line	Exempt from reductions, but must at least bind tariffs
	Imports of staple foods at least 4-8 percent of supplies by 6 years	Imports of staple foods at least 1-4 percent by 10 years; allow "appropriate market access" for other agricultural products in return for more lenient terms	Same as LDCs
Tariff rate quotas:	Increase access from 3 to 5 percent	Same as DCs	Same as DCs
Most-favored nation:	No special regional schemes unless offered to all	Same as DCs	Same as DCs
Special safeguard:	Duties allowed on tariff-rate quota commodities if import volume or prices meet certain criteria	Same as DCs	Same as DCs
Export subsidies:			
New subsidies:	Disallowed	Disallowed	Disallowed
Reductions of old:	Reduced 21 percent over 6 years from base	Reduced 14 percent over 10 years from base	Exempt, but no increases either
Credits/guarantees:	To be negotiated further	Same as DCs	Same as DCs
Domestic support			
Categorization of policies:	"Amber box", "green box", and "blue box"	Same as DCs	Same as DCs
Aggregate Measurement of Support (AMS):	Reduce 20 percent over 6 years	Reduce 13.3 percent over 10 years	Same as LDCs
	"De minimus" provision exempts commodity if less than 5 percent of total value of production	"De minimus" provision exempts commodity if less than 10 percent of total value of production	Same as LDCs
	---	Investment, input and diversification subsidies exempt	Same as LDCs

Source: Derived from Valdes and McCalla (1996).

developing countries. Those developing countries that have adequate agricultural resources, produce similar or substitutable crops, and have open economic policies would be faced with a higher price incentive to produce. This would increase their domestic food availability and food access and decrease their dependence on food imports to meet overall food needs.

In the short run, however, the impact of higher world prices could hurt the resource-poor countries with high food import dependency, increasing the costs of food imports and reducing foreign exchange earnings for alternative uses. Another related effect of lowering domestic subsidies in exporting countries is that it could reduce stocks, which could increase global price variability. For developing countries, stability in food import prices reduces short-term financial difficulties of importing and allows a more stable flow of capital goods that are important to economic growth.

Foreign exchange availability to finance food imports for food insecure countries is closely linked to the issue of market access. Agricultural commodity exports are a major source of foreign exchange earnings for developing countries. Prices of the primary commodities have been declining for the last two decades. The World Bank estimates that the loss in foreign exchange earnings to developing countries from declining commodity prices totaled \$100 billion a year from 1980 to 1993. While complete liberalization of the global market may not reverse the long term decline in commodity market prices, protection of commodities such as sugar and peanuts limits market access and therefore demand, thereby reducing prices of commodities exported by low-income countries. Consequently, this reduces their ability to import foods.

The next round is expected to follow the URAA agenda and continue negotiation in the areas of market access, domestic support, and export competition.³ In the area of market access, possible areas for negotiation include continuing efforts to finish converting nontariff barriers to tariff barriers, lowering existing tariffs, increasing minimum access levels for tariff-rate quotas (TRQs), and reducing export taxes. With domestic support, continued reductions in subsidies and further clarification as to which policies and programs distort trade are key subjects for negotiation. With export competition, continued negotiated reductions in existing export subsidies is a significant negotiating objective for many countries.

Several other agricultural trade issues are likely to receive attention in the next round, although it is unclear at this point whether new protocols will be opened. These include:

- ✿ *Food aid.* This is an important issue for developing countries. Among some donors, there are concerns that food aid may be used as a hidden export subsidy (relatedly, export credits have come under similar criticism). For the recipient countries, there are concerns that food aid quantities have dropped sharply in recent years, despite provisions in place to address possible adverse consequences for food security.⁴ With the end of government-held surpluses, food aid availability could become essentially a budgetary issue and a pressing consideration for both emergency and developmental programs if high food aid needs coincide with periods of high prices.
- ✿ *Preferential trade arrangements.* Many trade arrangement programs provide special market access for developing countries' commodities and goods. The margin of preference has varied by commodity and time, but for some commodities (such as sugar) the prices received by exporters to the EU and U.S. market have been two to three times the world price since 1980. While these arrangements provide economic benefits to producers in these countries, the arrangements also discriminate against other countries that may be able to produce the same goods more efficiently and at lower cost. If the arrangements are removed, the current producers may not be able to compete effectively in the future, suggesting that these protections may need to be phased out to allow for adjustment.
- ✿ *Technical assistance.* Many developing countries signed the Uruguay Round agreements, but lacked the capacity to implement and enforce them. These countries are likely to demand more specific language and funding to support such activities.
- ✿ *State trading enterprises (STEs).* Some STEs have monopoly trading power, although countries disagree over the effects of STE privileges on world trade and prices. Given that STEs exist in both developed as well as in developing countries, disciplines imposed on STEs would affect developing countries directly and indirectly.
- ✿ *Biotechnology.* Many consumer groups have raised concerns about the possible health and environmental effects from crops using genetically modified organisms (GMOs). Developing countries may be affected by any new standards or regulations that ultimately influence prices as well as the way in which such standards may restrict trade with some developed countries.
- ✿ *Production process issues.* Production practices have come under greater international scrutiny and may be addressed through trade negotiations. Examples of these issues include animal welfare (confinement) and different types of fishing nets. Developing countries already have been

³ The following two sections synthesize the discussions of Valdes and McCalla (1996), IATRC (1997), Hanrahan (1998), Salinger (1998), Thompson (1998), and Valdez and Young (1998). In addition, the authors have benefited from attendance at several recent seminars and conferences sponsored by the Federal government, think tanks and other research institutions.

⁴ These provisions are detailed in Part X, Article 16 of the Uruguay Round Agreement ("Measures Concerning the Possible Negative Effects of the Uruguay Round Agricultural Reform Program on Least-Developed and Net Food-Importing Developing Countries").